

STATEMENT FOR THE RECORD
HOUSE WAYS AND MEANS COMMITTEE
“HEARING ON TAX REFORM
AND CHARITABLE CONTRIBUTIONS”
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CONVOY OF HOPE

Chairman Camp, Representative Levin, and distinguished Members of the Committee, thank you for the opportunity to share the perspectives of Convoy of Hope as the Committee examines the issue of charitable contributions as part of your preparations to undertake comprehensive tax reform.

I am the President and Co-Founder of Convoy of Hope, a faith-based 501(c)(3) charitable organization founded in 1994 and headquartered in Springfield, Missouri. Convoy of Hope relies on its expertise in logistics, quality products and determined people to fulfill its mission to feed the world and meet the pressing needs of the poor and suffering. Since 1994, Convoy of Hope has served more than *55 million* people in the United States and throughout the world through international children’s feeding initiatives, community outreaches, partner resourcing, and domestic and international disaster response.

Children’s Feeding Initiatives

With millions of children going hungry and lacking access to clean drinking water, Convoy of Hope focuses heavily on providing the basic necessities of life to those in need. Today, there are more than 125,000 children in our feeding initiatives in El Salvador, Haiti, Dominican Republic, Honduras, Kenya, Nicaragua and the Philippines. Through these feeding initiatives, Convoy of Hope provides good nutrition, clean and safe drinking water, instruction on agricultural techniques to community leaders, and helps provide healthy living environments and education.

Community Outreaches

Each year in the United States Convoy of Hope holds up to 50 community outreaches with the help of thousands of volunteers who serve tens of thousands of guests. Free groceries, job and health fairs, and activities for children are provided at each community outreach. Convoy of Hope’s volunteers connect with members of their community, and guests are shown love and respect regardless of age, race, physical appearance, or spiritual condition.

Partner Resourcing

Convoy of Hope supports the work of like-minded organizations throughout the world and has empowered hundreds of organizations by providing the food and supplies they need to make a positive difference in their communities.

Disaster Response

Convoy of Hope is a “first responder” organization in disaster relief. With fleets of tractor-trailers, warehouses, high-tech Mobile Command Centers and a scalable distribution model, Convoy of Hope quickly provides resources and help to victims of disasters in the United States and around the world. Convoy of Hope could not do this but for its strong alliances and partnerships in the faith-based community, and businesses and national and state disaster relief agencies and organizations. These strengths are the reason Convoy of Hope was one of the first humanitarian aid groups to distribute food in Haiti after the 7.0-magnitude earthquake struck on January 12, 2010.

In less than 20 years, Convoy of Hope has grown into an organization that meets the needs of the poor and suffering in our neighborhoods and around the world. Today, Convoy of Hope operates a 300,000 square foot World Distribution Center, six international distribution centers, and fleets of trucks in several countries. Convoy of Hope works with over 25,000 churches and charitable organizations, utilizes over 1,200 volunteer teams, has mobilized nearly 400,000 volunteers, and distributed over \$300 million of food, clothing, and other gifts-in-kind to the neediest of our brothers and sisters around the world. But, none of this would have been possible without the love and generosity of our donors and the encouragement and support they have always received through the U.S. Tax Code.

Background

The support of charitable and civic organizations in the U.S. Tax Code is simply a reflection of the American character that pre-dates passage of the income tax. As Alexis de Tocqueville observed in the 1840s:

Americans of all ages, all conditions, and all dispositions constantly form associations. They have not only commercial and manufacturing companies, in which all take part, but associations of a thousand other kinds, religious, moral, serious, futile, general or restricted, enormous or diminutive. The Americans make associations to give entertainments, to found seminaries, to build inns, to construct churches, to diffuse books, to send missionaries to the antipodes; in this manner they found hospitals, prisons, and schools. If it is proposed to inculcate some truth or to foster some feeling by the encouragement of a great example, they form a society. Wherever at the head of some new undertaking you see the government in France, or a man of rank in England, in the United States you will be sure to find an association.¹

In some ways, not much has changed since Tocqueville's observations. Americans are still forming associations to address the needs of their communities, their country, and the world. Today, there are an estimated 2.3 million nonprofit organizations operating in the United States, approximately 1.6 million of which were registered with the Internal Revenue Service (IRS) in 2010—an increase of 24 percent from 2000 (not including over 300,000 church congregations in the United States). This nonprofit sector contributed \$804.8 billion to the U.S. economy in 2010, making up 5.5 percent of the country's gross domestic product. In 2011, private charitable contributions, which include giving to public charities and religious congregations, totaled \$298.42 billion. And, again in 2011, 26.8 percent of adults in the United States volunteered with an organization. Volunteers contributed 15.2 billion hours, worth an estimated \$296.2 billion.²

Like these charitable organizations that serve the neediest among us, the charitable deduction plays a crucial role in the health and wellbeing of our society. And, since the inception of the income tax in 1917, Congress has recognized the connection between the tax code and donations to charitable organizations. The innate and natural generosity of Americans, encouraged through tax incentives, has made possible extraordinary individual philanthropy. According to Giving USA, in 2011 individuals from 117 million U.S. households donated nearly \$218 billion to charity. And, the overwhelming majority of donations come from taxpayers who take the charitable deduction. More than 80 percent of Americans who itemized their tax returns in 2009 claimed the charitable deduction and these individuals, while

¹ Tocqueville, Alexis de (1840). Volume II, Chapter V: "Of the Use which the Americans Make of Public Associations in Civil Life" *Democracy in America*. London: Saunders and Otley.

² National Center for Charitable Statistics (NCCS), The Urban Institute, The Nonprofit Almanac 2012.

representing only one quarter of all taxpayers, are responsible for more than 76 percent of individual contributions to charitable organizations.³

These individual donations feed the poor, shelter the homeless, fund medical research, educate our children and so much more. It is the charitable tax deduction that encourages this giving and makes much of this possible.

Threats to the Charitable Deduction

Congress has already begun limiting the charitable deduction. On New Year's Day, Congress passed the American Taxpayer Relief Act of 2012 (H.R. 8) that averted the automatic, across-the-board tax increases of the "fiscal cliff" and delayed for two months the spending cuts that had been set to take effect on January 1st as part of sequestration. In addition, the bill reinstated the "Pease" limitation on itemized deductions—opening the door to further limitations in the future. The Pease Limitation raises the effective tax rate of affected taxpayers by reducing the amount of their allowable deductions (including their charitable deduction).

As destructive a precedent as the Pease Limitation is, there are far more harmful and aggressive proposals that are being seriously proposed and considered. For instance, the last two budgets submitted to Congress proposed to reduce the value of the charitable deduction by limiting itemized deductions for taxpayers earning more than \$200,000 per year to 28 percent. When the top marginal rate was 35 percent, experts predicted this proposal would cause charitable giving to decline by billions annually. Now that the top marginal tax rate is 39.6 percent, capping the charitable deduction at 28 percent would cause an even greater decline.

Another harmful proposal that has been circulated in policy circles is an aggregate hard dollar cap on itemized deductions. In other words, setting a dollar amount that is the limit of itemized deductions a taxpayer would be permitted to claim. The dollar amount has varied from as low as \$17,000 to as high as \$50,000. Wherever the limit is set, it will effectively eliminate the charitable deduction for millions of taxpayers and harm innumerable charities serving our communities. Taxpayers would be forced to choose between itemizing their mortgage interest, local tax, and other similar deductions that directly benefit them and the charitable deduction which does not directly benefit them. For taxpayers that reach the cap, the charitable donation will be the first incentive that is left behind.

According to an Indiana University survey, more than two-thirds of high-net-worth donors would decrease their giving if they did not receive a deduction for donations.⁴ In fact, it has been estimated that with no charitable deduction at all, annual giving in the United States would decline by 36 percent.⁵ This would have resulted in a \$78 billion decline in individual charitable giving in 2011.

Decoupling the charitable deduction from a taxpayer's tax rate will reduce annual charitable giving. And, the remaining value of the deduction will decline over time as inflation eats into the deduction's value and Congress seeks further revenue in the future.

While Convoy of Hope's donors are varied, there is no doubt that the charitable deduction affects their behavior. Convoy of Hope estimates that millions of dollars in goods and cash were donated to Convoy of Hope in the last quarter of 2012 by donors who feared this crucial deduction would be cut or capped in

³ Internal Revenue Service Statistics of Income data for 2008.

⁴ The 2012 Study of High Net Worth Philanthropy, Center on Philanthropy at Indiana University, November 2012.

⁵ "Charitable Giving, Income, and Taxes: An Analysis of Panel Data" Gerald E. Auten, Holger Sieg and Charles T. Clotfelter. *The American Economic Review*. March 2002.

2013. In essence, the mere possibility that the charitable deduction could be reduced or eliminated in 2013 had the effect of pulling future charitable giving into calendar year 2012 to ensure deductibility. This may make for a better 2012 bottom line, but it distorts the market and may reduce future receipts. These distortions are akin to “robbing Peter to pay Paul” because they look good in the short term but do not increase revenue in the long term. More importantly, this creates a financial “bubble” that makes it difficult to accurately plan for the future needs of the people we serve.

The Value and Unique Nature of the Charitable Deduction

We should not make the mistake of viewing the charitable deduction as a gift from the government that does not serve any broader societal purpose. If anything, the charitable deduction should be viewed as a bargain basement investment on the government’s part whereby the charitable sector is leveraged at pennies on the dollar to provide services to our neediest citizens. If an individual in the highest tax bracket donates \$1,000 to charity, the government gives up roughly \$400 in taxes. But, the local community gets the benefit of the entire \$1,000 donation. It is difficult to imagine a better vehicle by which the government can leverage a 2.5-to-1 rate of return in providing housing to the homeless and food to the hungry.

The charitable deduction is unique and should be considered separately from other tax benefits. Unlike incentives to save for retirement or purchase a home, the charitable deduction encourages behavior for which a taxpayer receives no direct tangible benefit. It is the only tax benefit that encourages individuals to give away their income without personal financial gain. It does not subsidize personal consumption or underwrite the accumulation of personal wealth. Every other tax benefit encourages individuals to consume more or save more for themselves. The charitable deduction simply encourages taxpayers to give away a portion of their income to benefit others.

Conclusion

The positive impact of the charitable deduction is not lost on the American people. An April 2011 Gallup Poll found that 62 percent of Americans *who do not claim the deduction* support its preservation as an incentive for giving.

Historically, it has been the government that has relied on the nonprofit community in times of need. Not only are nonprofits vital to everyday life, but Convoy of Hope knows firsthand that private giving is also essential during disasters. Never was this more abundantly clear than during the devastation brought by Superstorm Sandy in response to which Convoy of Hope delivered 79 tractor trailers of food, water and relief supplies to devastated communities.

As Tocqueville noted over 150 years ago, “[N]othing is more deserving of our attention than the intellectual and moral associations of America.” Today, charitable organizations remain an indispensable component of a vibrant republic. Whether a church sharing life principles, or an organization focused on the arts, social services, scientific research, or education, citizens joining together in associations to address the needs of their communities have saved lives, comforted the solitary and made our communities better places to be. And, charitable organizations also serve as an indispensable laboratory for innovation and entrepreneurship.

The charitable deduction is a crucial incentive that encourages people to give, and give more generously than they otherwise would. Convoy of Hope encourages Congress to maintain its commitment to these uniquely American organizations that bring us together for a common purpose—elevating what is best in our citizens in order to help the least among us and improve our communities and our nation.